



## Annual Audit Letter for 2014-15

# **Police & Crime Commissioner for Gwent and Chief Constable of Gwent Police**

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# Status of report

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The team who delivered the work comprised John Herniman, Matthew Coe, and Andy Bruce and Dave Burrige.

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# Summary report

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## Introduction

1. This report summarises my findings from the audit work I have undertaken in relation to both the Police & Crime Commissioner and Chief Constable of Gwent during 2015.
2. The work I have done allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and both corporations' sole arrangements to secure efficiency, effectiveness and economy in their use of resources.
3. More detail on the specific aspects of my audit can be found in the separate reports that I have issued during the year. My team has discussed and agreed these reports with officers and presented them to the Police and Crime Commissioner, the Chief Constable and Joint Audit Committee. My 2015 Audit Plan set out the significant financial audit risks for 2015, [Appendix 2](#) shows how they were addressed as part of the audit.

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## I issued unqualified opinions on the 2014-15 financial statements of the Police & Crime Commissioner, Chief Constable and Police Pension Fund

4. The financial statements are an essential means by which the Police & Crime Commissioner for Gwent (the Commissioner) and the Chief Constable of Gwent Police (the Chief Constable) accounts for their stewardship of the resources at their disposal and their financial performance in the use of those resources. It is their responsibility to:
  - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
  - maintain proper accounting records; and
  - prepare financial statements in accordance with relevant requirements.
5. I am required to audit the financial statements and to issue audit reports which include an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Commissioner, the Chief Constable and the Police Pension Fund. The reports also give my opinion on whether the financial statements have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 and relevant regulations.
6. On 29 September 2015, the Auditor General for Wales issued unqualified audit reports on the Commissioner's, Chief Constable's and the Police Pension Fund's financial statements.
7. We received all the draft financial statements for the year ended 31 March 2015 on 30 June 2015, which was in line with the agreed deadline. However, these draft accounts were incomplete as further information was required on collaboration income and expenditure from South Wales Police which was subsequently provided and entered into the accounts.
8. I found the information and working papers provided to support the accounts to be relevant, reliable, comparable, and easy to understand. We concluded that accounting policies and estimates were appropriate and financial statement disclosures unbiased, fair and clear.
9. There were no significant difficulties encountered during the audit. We received information in a timely and helpful manner and were not restricted in our work. In 2013-14 we noted a significant number of non-material and narrative amendments to the draft accounts. Whilst there were fewer amendments this year, a more detailed management review of the draft accounts during the year-end closedown process would help reduce these further.
10. One area that was material and particularly complex that required specific attention, was a liability on the Police Pension Fund arising from updates to the calculation of historic lump sum payments to pensioners retiring between 2001 and 2006. This was the result of changes to historic commutation factors applicable to all police forces. The statements presented for audit correctly included a provision for this item which

was updated when further information became available from the government actuary department in July 2015. We concluded that the updated provision included in the accounts was a reasonable estimate of the potential liabilities.

11. International Standard on Auditing (ISA) 260 requires auditors to report to ‘those charged with governance’ the findings of the audit of the financial statements. The Audit of the Financial Statements Report was presented to the Commissioner and Chief Constable, and to the Joint Audit Committee at their meeting on 16 September 2015. A summary of the findings is set out in [Exhibit 1](#).

**Exhibit 1: Audit of Financial Statements Report to the Commissioner and Chief Constable**

Reporting requirement	Audit findings
Modifications to the auditor’s report	No modifications required, unqualified opinions given.
Unadjusted misstatements	One uncorrected misstatement identified. The full impact of the share of benefits from collaborative operations was not shown in the accounts. We are content that the net impact of £682,000 was not material to an understanding of the accounts, but we recommended that this information is obtained earlier in future and reflected in full in the 2015-16 draft accounts prior to them being passed for audit.
Views about the qualitative aspects of the entity’s accounting practices and financial reporting	No matters reported.
Matters corresponded upon with management	2014-15 was the first year that the accounts have been required to disclose the ratio of the Chief Executive’s and the Chief Constable’s remuneration to the median remuneration of offices and staff. We noted that further refinement to the calculation of the ratios is needed for 2015-16. No other significant matters were reported.
Matters significant to the oversight of the financial reporting process	No matters reported.
Material weaknesses in internal controls	No material weaknesses identified.
Matters specifically required by other auditing standards to be communicated to those charged with governance	No matters reported.

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## I am satisfied that the Commissioner and Chief Constable had appropriate arrangements in place in the year to secure economy, efficiency and effectiveness in their use of resources

12. My consideration of the Commissioner's and Chief Constable's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts. I have also placed reliance on the results of the audit work undertaken on the Commissioner's and the Chief Constable's systems of internal control, as reported in the Annual Governance Statements and my reports thereon; the results of work carried out by the Auditor General; the results of the work of other external review bodies, eg HMIC, where relevant to my responsibilities; and any other work, including from Internal Audit, that I considered necessary to discharge my responsibilities.
13. For the purposes of my work, I evaluated the Commissioner's and the Chief Constable's systems against a number of questions. This approach is set out in detail in [Appendix 1](#). For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.
14. The systems of control and governance have continued to develop in 2014-15. The Commissioner's Strategy and Performance Board has met regularly in the year to consider Force performance. The Manual of Corporate Governance and the Principles of Relationship between the Commissioner and the Chief Constable have also been reviewed and updated. The Joint Audit Committee has met five times in 2014-15, and has considered the results of the work of Internal Audit and ourselves. I and my team have also supported and worked with this Committee as it carried out a self-assessment exercise of its own performance in the year. The Joint Audit Committee has worked well, providing appropriate assurances and recommendations to the Commissioner and Chief Constable. For the first time the Joint Audit Committee has produced an annual report of its work, which includes an assessment of its effectiveness against CIPFA guidance and how it contributes to the effectiveness of overall governance arrangements.
15. In the 2015 Audit Plan to the Commissioner and Chief Constable, we stated our performance work programme would focus on a review of the effectiveness of the Commissioner's collaboration and partnership arrangements, focusing primarily on Community Safety activities. Our force-level review of community safety forms part of a national study, which is being undertaken at an all Wales (Welsh Government), regional (Commissioner area) and local (local authority/Community Safety Partnership) level. Whilst we have completed our local fieldwork in Gwent, our findings will also be informed by other streams of work within the national study that have yet to be completed. This work includes data analysis, surveys of the public and Community Safety Partnership members and fieldwork at local authorities, partnerships and Welsh Government. Taking account of this additional work will significantly add value to our

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local work by providing additional evidence and perspectives from a broad range of stakeholders.

16. When this additional work is completed early in 2016, we will produce a report for the Commissioner and Chief Constable setting out our local findings on community safety partnership working, taking account of the broader findings from evidence gathered for the national study. Our national report will be published during 2016 and will provide conclusions on the work of the all of the partners involved in the management of community safety in Wales.
17. Based on the Commissioner's and Chief Constable's Annual Governance Statements and as a result of the work carried out, as described above as part of my audit of the 2014-15 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Commissioner and Chief Constable had in place during the year to properly support the achievement of their responsibilities to secure economy, efficiency and effectiveness in their use of resources. Based on, and limited to, the work carried out I have raised various issues with, and made recommendations to, improve the Commissioner's and Chief Constable's arrangements.

### The Commissioner and Chief Constable met their revenue budgets for 2014-15, and continue to respond positively to significant financial challenges

18. The Commissioner and Chief Constable have continued to operate within their revenue budget in 2014-15. Against a revenue budget requirement for the year of £119.6 million, and after taking account of additional funding and expenditure relating to the NATO summit in September 2014, the Commissioner achieved an underspend of £4.4 million. This amount was transferred to reserves to meet future operational changes. The Police Fund General Reserve decreased by £6.8 million to £4.0 million at 31 March 2015 as reserves were earmarked for future projects, including the replacement of Gwent Police headquarters.
19. The Commissioner and the Chief Constable continue to receive regular reports from the Chief Finance Officer and the Assistant Chief Officer – Resources, respectively, on expenditure and position against budget. This information is also provided to the Strategy and Performance Board throughout the year. The reported position in August 2015 showed that the Commissioner was on course to deliver the £6.0 million of efficiency schemes required in 2015-16.
20. However, there is increasing pressure to identify savings that cover the cumulative financial deficit of £50.5 million to 31 March 2019 identified from the 2010 and 2013 Comprehensive Spending Reviews. Total savings/cost reductions of £28.3 million have been delivered at 31 March 2013 and further savings of £3.6 million have been identified under Phase 7 of the Staying Ahead Programme for delivery on 2014-15. This leaves an additional savings requirement of £18.6 million to bridge the overall funding gap. Phase 8 of the Staying Ahead Programme has been initiated and initial

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scoping identifies potential savings of £16.3 million, leaving a net deficit of £2.3 million in 2018/19.

## Gwent Police has made good progress on developing plans to manage the financial pressures over the medium and longer term

21. Our aligned work programme with HMIC involved jointly gathering evidence on whether the Staying Ahead savings programmes are delivering positive and measurable changes towards a sustainable police service. Following its initial Policing in Austerity report in July 2014, HMIC conducted a further review in March 2015 to gauge Gwent Police's progress<sup>1</sup> and concluded that:

**'Gwent Police has made good progress since the original inspection in May 2014. The Force can now demonstrate how it will have a secure financial position for the short and long term and has developed a new operating model to match resources better to demand and deliver effective policing services.'**

22. HMIC reached this conclusion because:

- At the time of the revisit in October 2014, HMIC found that Gwent Police's budget plans had clearer financial governance measures through the 'Staying Ahead 8' programme board and the Commissioner's Strategy and Performance Board. This, together with the steps the Force is taking to address victim satisfaction and match resources to demand, provides HMIC with greater confidence that Gwent Police is taking the necessary measures to meet the financial challenges ahead, while seeking to improve delivery of services to the public.
- In spring 2014, Gwent Police carried out an initial assessment of demand and at the time of the revisit informed HMIC that this process would be repeated in November 2014, to develop its understanding further.
- In line with a better understanding of demand, Gwent Police has made good progress in developing an operating model, designed to protect the front line, improve victim satisfaction and enhance delivery of services to the public. The model is affordable in the medium term and scalable for the future. At the time of the revisit, Gwent Police had still to move from developing its plans to implementing the considerable change required by the end of April 2015.
- Issues in relation to victim satisfaction remain (in particular, keeping victims informed and Gwent Police's response to crime performance identified in the original inspection). These issues relate to increases in the key crime categories of overall crime; victim based crime and violence against the person. However, Gwent Police outlined plans to address these issues through the introduction of 'Connect Gwent' (a victims' hub); the implementation of the Gwent CARE's initiative to enhance victim contact experience; a review of the Force control room to deal with matters at the first point of contact; and putting local

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<sup>1</sup> HMIC "Responding to austerity – progress report Gwent Police" March 2015

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supervisors into the control room to deal with complaints at the first point of contact.

- 23.** HMIC further concluded that they remain concerned that the Force has a considerable amount of adjustment to implement in a short period of time, while maintaining performance in a changing environment. However, HMIC viewed the early progress Gwent Police has made as encouraging and provided some reassurance of its ability to deliver the changes.
- 24.** In addition, in 2014/15 HMIC published its first assessment of police effectiveness, efficiency and legitimacy (PEEL) for each force across England and Wales, summarising HMIC's findings from the previous 12 months' inspections. Their conclusions on Gwent Police were that the available evidence indicates that:
- In terms of its effectiveness, in general, the Force requires improvement in reducing crime and preventing offending, it requires improvement in the way it investigates offending and requires improvement in tackling anti-social behaviour. There were some specific concerns about its approach to domestic abuse.
  - The efficiency with which the Force carries out its responsibilities requires improvement. However, there has been a notable improvement in the Force's approach since the initial inspection.
  - The Force is acting to achieve fairness and legitimacy in a limited number of the practices that were examined this year.
- 25.** Further details of the PEEL methodology and the detailed PEEL assessment conclusions relating to Gwent Police are available on HMIC's website at <http://www.justiceinspectores.gov.uk/hmic/>.
- 26.** Reviews conducted by HMIC support my conclusions about arrangements to secure an efficient and effective police service. We continue to provide challenge and support to senior officers and staff through our ongoing discussions on the in-year and future plans of the Commissioner and Chief Constable.

## **I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2015**

- 27.** I issued a certificate confirming that the audit of the accounts for the Commissioner and the Chief Constable had been completed on 29 September 2015.
- 28.** I have also completed the audit of the Whole of Government Accounts return, and then submitted the audited return to the Wales Audit Office central audit team by the required deadline of 2 October 2015. The return was generally well compiled and there were no matters of significance to report.
- 29.** I estimated in the Annual Audit Outline that the 2014-15 audit fee would be £85,660. The actual audit fee is in line with my original estimate.

# Appendix 1

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## Criteria to assess arrangements for securing economy, efficiency and effectiveness in his use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
<b>Establishing objectives determining policy and decision making</b>	Has the Commissioner/Chief Constable put in place arrangements for setting, reviewing and implementing his strategic and operational objectives?
<b>Meeting the needs of users, stakeholders and the local population</b>	Has the Commissioner/Chief Constable put in place channels of communication with the local population, users of the service, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
<b>Monitoring and reviewing performance</b>	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the Commissioner/Chief Constable?
<b>Compliance with established policies</b>	Has the Commissioner/Chief Constable put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
<b>Operational and financial risks</b>	Has the Commissioner/Chief Constable put in place arrangements to manage his significant business risks?
<b>Managing financial and other resources</b>	Has the Commissioner/Chief Constable put in place arrangements to evaluate and improve the value for money he achieves in his use of resources?
	Has the Commissioner/Chief Constable put in place arrangements to ensure that his spending matches his available resources?
	Has the Commissioner/Chief Constable put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Commissioner/Chief Constable?
<b>Proper standards of conduct etc</b>	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutinising performance, to identify potential variances against strategic objectives, standards and targets for taking action?
	Has the Commissioner/Chief Constable put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of his business?

# Appendix 2

## Significant audit risks

My 2015 Audit plan set out the significant financial audit risks for 2015. The table below lists these risks and sets out how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none"> <li>test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>review accounting estimates for biases; and</li> <li>evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>	No issues were noted from our review and testing of journal entries. There were no issues noted in relation to other significant estimates in the accounts.
There is approximately £20 million of additional income and expenditure due in 2014-15 relating to the policing of the NATO summit. This will need to be accounted for and disclosed correctly within the financial statements. Similarly, any changes following the Stage 2 transfer between the Commissioner and the Chief Constable will need to be accurately reflected in the financial statements.	My audit team will specifically test the additional expenditure relating to NATO and agree with management the correct accounting and disclosures for this event and the Stage 2 transfer.	Note 5 to the audited financial statements includes additional disclosures explaining the impact of the additional £23.8 million expenditure and £23.0 million funding for the NATO summit on Gwent's accounts. No issues were noted from our testing.
Changes to the definition of jointly controlled operations within the Code and audit regulations, means that additional activities may now need to be included in disclosures relating to collaboration. These changes affect all local government bodies in England and Wales.	I will work with police bodies in Wales to agree a common set of principles and consistent approach to recognition and disclosure within the financial statements.	Adjustments were made to the 2014-15 financial statements to reflect the share of benefit from collaborative operations, but there is more work to do to refine the calculations and provide this information earlier in the draft accounts process.

Significant audit risk	Proposed audit response	Work done and outcome
<p>There has been clarification of a number of ongoing pension related issues, including the treatment of deductions from ill health pension of Employment Support Allowance, and the protected pension age.</p>	<p>My audit team will liaise with management on the year-end position regarding these issues and ensure they are appropriately disclosed and accounted for in the financial statements.</p>	<p>The 2014-15 financial statements include a provision for a reasonable estimate of backdated lump sum payments. Appropriate disclosures have been made in the financial statements.</p>
<p>Following an internal review of arrangements, the Commissioner has changed bank accounts during the year.</p>	<p>We will obtain appropriate authorisations from management to obtain third party confirmations from the new bankers.</p>	<p>Appropriate authorisations and third party confirmations were obtained.</p>
<p>The financial statements need to comply with International Financial Reporting Standards (IFRS). The Commissioner and Chief Constable and their staff must:</p> <ul style="list-style-type: none"> <li>• ensure that each set of accounts are prepared to appropriately reflect the substance of day-to-day control of activities as well as legal positions; and</li> <li>• have a full understanding of IFRS requirements, keeping up-to-date with new requirements and ensure risks and issues are identified and dealt with appropriately.</li> </ul>	<p>We will continue to work with and support the Commissioner and Chief Constable and their staff to agree the most appropriate presentation in both sets of financial statements and the group statements.</p> <p>We will also agree improvements to the methodology and working papers supporting the financial statements, where necessary.</p>	<p>A number of changes to the notes to the accounts were made as a result of our work and the remuneration disclosures are now in line with accounting requirements.</p>
<p>The Home Office have provided several new grants to the Commissioner in the year for distribution to a number of third party bodies.</p>	<p>We will test these additional funds to source documents, verify they have been distributed appropriately and ensure they are accounted for correctly in the accounts.</p>	<p>No issues were noted from our testing of the Commissioner's income/funding.</p>

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